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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES - CHAIRMAN
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

2010 OCT -5 P 4: 26

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE FORMAL) DOCKET NO. E-04204A-08-0589
COMPLAINT OF MARSHALL MAGRUDER)
FILED WITH THE ARIZONA CORPORATION)
COMMISSION ON DECEMBER 5, 2008.)

UNS Electric, Inc. ("UNS Electric" or "Company") hereby files City of Nogales Order No. 2010-09-084. This Order approves a settlement agreement between the City of Nogales and the Company, and memorializes a Company-funded scholarship program for Nogales and Rio Rico High Schools. The settlement agreement is attached to the enclosed Order as Exhibit A. Through the Order, the City of Nogales agreed that the UNS Electric scholarship program "reasonably satisfies the disputed obligations as successor in interest to Citizens to fulfill the 1999 settlement agreement's educational support provision."

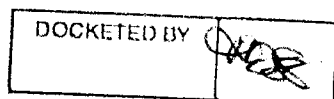
RESPECTFULLY SUBMITTED this 5th day of October 2010.

UNS Electric, Inc.

Arizona Corporation Commission

DOCKETED

OCT 5 2010



By

Michael W. Patten
Jason D. Gellman
ROSHKA DEWULF & PATTEN, PLC.
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004

and

Philip J. Dion
Melody Gilkey
UniSource Energy Services
One South Church Avenue, Suite 200
Tucson, Arizona 85702

Attorneys for UNS Electric, Inc.

Original and thirteen copies of the foregoing
filed this 5th day of October 2010, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copies of the foregoing hand-delivered/
mailed this 5th day of October 2010, to:

Marshall Magruder
P. O. Box 1267
Tubac, Arizona 85646

Jane Rodda, Esq.
Administrative Law Judge
Arizona Corporations Commission
400 West Congress Street
Tucson, AZ 85701

Janice Alward, Esq.
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

Steve Olea
Director Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

By Mary Ippolito

ORDER No. 2010-09-084

**AN ORDER OF THE COUNCIL OF THE CITY OF NOGALES,
ARIZONA APPROVING A SETTLEMENT AGREEMENT WITH
UNS ELECTRIC, INC., CREATING A SCHOLARSHIP PROGRAM
FOR NOGALES AND RIO RICO HIGH SCHOOLS**

WHEREAS, the City of Nogales desires to amend and clarify the educational support provision of the 1999 settlement agreement with Citizens Utilities Company ("Citizens") that resolved the City's administrative complaint against Citizens then pending before the Arizona Corporation Commission; and

WHEREAS, UNS Electric, Inc., successor in interest to Citizens, likewise desires to clarify and expand its current educational support program in Santa Cruz County; and

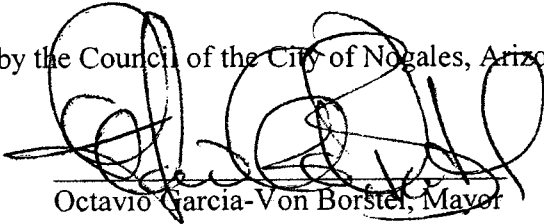
WHEREAS, the superintendents of Nogales Unified School District and Santa Cruz Valley Unified School District support the creation of a Unisource Energy Services Achievement Scholarship benefiting one graduate each year from each of their respective high schools for 20 years pursuant to the terms of this Agreement; and

WHEREAS, the City agrees that the commitment by UNS Electric, Inc. to fund the Unisource Energy Services Achievement Scholarship pursuant to the terms of the Agreement hereinafter set forth reasonably satisfies the disputed obligations as successor in interest to Citizens to fulfill the 1999 settlement agreement's educational support provision.

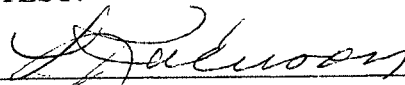
NOW, THEREFORE, BE IT ORDERED BY THE COUNCIL OF THE CITY OF NOGALES that

1. The settlement agreement attached hereto as Exhibit "A" is hereby adopted and approved.
2. The City Manager is hereby authorized to execute on behalf of the City the Agreement attached hereto as Exhibit A; City staff is hereby directed to take all appropriate and necessary action to effectuate said agreement.

PASSED, ADOPTED AND APPROVED by the Council of the City of Nogales, Arizona this 1st day of SEPTEMBER 2010.


Octavio Garcia-Von Borstel, Mayor

ATTEST:


Leticia Robinson, City Clerk

APPROVED AS TO FORM:

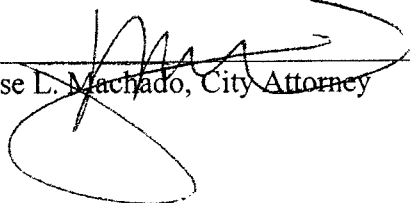

Jose L. Machado, City Attorney

EXHIBIT "A"

UNISOURCE ENERGY SERVICES ACHIEVEMENT SCHOLARSHIP AGREEMENT

This UniSource Energy Services Achievement Scholarship Agreement ("Agreement"), effective the 1st day of January, 2011 ("Effective Date"), is hereby entered into by and between UNS Electric, Inc., an Arizona corporation ("UNS Electric"), the City of Nogales ("Nogales"), the Nogales Unified School District and the Santa Cruz Valley Unified School District (together "the School Districts"). UNS Electric, Nogales and the School Districts may be referred to individually herein as a "Party" and collectively as the "Parties."

AGREEMENT

I. TERM OF AGREEMENT.

The term of this Agreement shall commence January 1, 2011, and shall terminate on December 31, 2031 (the "Term").

II. UNISOURCE ENERGY SERVICES ACHIEVEMENT SCHOLARSHIP.

UNS Electric seeks to encourage Santa Cruz County high school students' post-secondary education while emphasizing community service and volunteerism. To accomplish this goal, UNS Electric will fund the UniSource Energy Services Achievement Scholarship Program (the "Program") in the amount of \$9,000.00 each calendar year during the Term, as more specifically described below.

A. Scholarship Program.

1. A total of three (3) UniSource Energy Services Achievement Scholarships ("Scholarships"), in the amount of \$3,000.00 each, will be awarded each calendar year during the Term, beginning in May 2011. One (1) Scholarship each will be awarded to one (1) graduating senior from Nogales High School, one (1) graduating senior from Rio Rico High School, and one (1) graduating senior from Pierson Alternative High School. The Scholarship recipient for Nogales High School will be determined each year during the Term during the spring

semester by the Nogales Educational Foundation. The Scholarship recipient for Rio Rico High School will be determined each year during the Term during the spring semester by the Rio Rico Scholarship Committee. The Scholarship recipient for Pierson Alternative High School will be determined each year during the Term during the spring semester by the Pierson Alternative Scholarship Committee. Scholarships will be awarded to qualified graduating high school seniors based on the following criteria:

- (i) academic achievement;
- (ii) financial need; and
- (iii) a demonstrated interest in volunteerism.

In order to receive the Scholarship, each recipient must enroll in and attend a university, college (including private and community colleges), or an accredited trade school located in Arizona within twelve (12) months of receiving the Scholarship.

2. In the event that (i) no student is eligible to receive a Scholarship during a given academic year, or (ii) the Scholarship recipient does not enroll and attend an Arizona university, college or accredited trade school within the required twelve (12) month time period, the Nogales Educational Foundation, the Rio Rico Scholarship Committee, and the Pierson High School Scholarship Committee may:

- (a) in the case of 2 (ii) above, recover the Scholarship from the original recipient and award the Scholarship to another qualified applicant for that academic year; or
- (b) allow the affected high school to carry-over the unused Scholarship for that academic year to the following academic year and award two (2) Scholarships to graduating seniors in such following year.

In no event shall any Scholarship money paid by UNS electric hereunder be used for any purpose other than to fund the Scholarships pursuant to the terms of this Agreement.

B. Scholarship Funding.

UNS Electric will pay \$3,000.00 to the Nogales Educational Foundation, \$3,000.00 to Rio Rico High School, and \$3,000.00 to Pierson Alternative High School for a total contribution of \$9,000.00 in April of each year of the Term. UNS Electric's annual funding obligation under this Agreement is limited to such annual \$9,000.00 contribution each April. In the event that Rio Rico High School creates an educational foundation similar to that of Nogales High School, and upon written consent of Rio Rico High School and written notice to UNS Electric, UNS Electric will thereafter pay the Rio Rico High School annual \$3,000.00 contribution directly to that educational foundation instead of the high school. In the event that Pierson Alternative High School creates an educational foundation similar to that of Nogales High School, and upon written consent of Pierson Alternative High School and written notice to UNS Electric, UNS Electric will thereafter pay the Pierson Alternative High School annual \$3,000.00 contribution directly to that educational foundation instead of the high school.

C. Management and Monitoring of Program.

The responsibility for ensuring that Scholarship funds are used by Scholarship recipients in compliance with the terms of this Agreement rests solely with the School Districts. Should a Scholarship award recipient fail to enroll in and attend a college, university or accredited trade school located in Arizona within the stated time period, as required herein, or otherwise fail to comply with the terms of the Scholarship Program, the School Districts shall, in their discretion, be solely responsible for recovering any funds paid to or on behalf of the Scholarship recipient. UNS Electric shall have no obligation to track or monitor students for compliance with the terms of the Program, or

to fund any additional amounts above the annual \$9,000.00 contribution described above should a Scholarship recipient misuse awarded funds or for any other reason.

D. Noncompliance with the Program.

In the event that either School District fails to enforce the Scholarship eligibility requirements or otherwise abide by the terms of this Agreement, UNS Electric may suspend funding of the Scholarship Program for the offending School District. Such suspension may continue until the School District provides UNS Electric adequate assurance that it has remedied the failures, that procedures are in place to monitor compliance, and that it will enforce the Scholarship eligibility requirements and abide by the terms of this Agreement.

III. JOINT PRESS RELEASE.

The Parties agree to issue a joint press release announcing the Agreement.

IV. ENTIRE AGREEMENT.

This Agreement contains the entire and complete understanding between the Parties with respect to the subject matter hereof and supersedes any prior agreements, representations, provisions, understandings, or inducements between the Parties written or oral, including but not limited to, the Educational Assistance (interest-free loan) Program identified in the Revised Settlement Agreement between the City of Nogales and Citizens Utilities Company dated June 1, 1999, the Asset Purchase Agreement by and between Citizens Communications Company ("Citizens") and UniSource Energy Corporation dated October 29, 2002, and Memoranda of Understanding by and between Citizens and UNS Electric dated August 11, 2003. Except as expressly stated in this Agreement, each Party hereby irrevocably and conditionally waives any and all rights and/or actual or potential claims against any other Party pertaining to any scholarship or student loan program under the agreements set forth in the preceding sentence or any other agreements and/or Arizona Corporation Commission decisions and hereby releases

every other Party from any present or future claims with respect to any such scholarship or student loan program.

V. HOLD HARMLESS AND INDEMNITY.

Each of the Parties (the "Indemnifying Party") agrees to indemnify, defend and hold harmless the other Parties, including their respective directors, officers, employees, agents and entities affiliated with or under common control of the respective Parties (the "Indemnified Parties") for, from and against any and all liability, injury, loss or damage including, without limitation, damage to property of any kind or nature, which any Indemnified Party may suffer as a result of any claim, demand, cost or judgment against it arising out of or in any way connected with the Indemnifying Party's action(s) or inaction(s) in connection with this Agreement.

VI. ASSIGNMENT AND SUCCESSORS.

This Agreement shall be binding upon and inure to the benefit of the Parties and their legal representatives, respective successors and permitted assigns, as the case may be.

VII. MODIFICATION AND WAIVER.

This Agreement may not be modified or amended except by an instrument in writing signed by each of the Parties. No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision of this Agreement except by written instrument signed by the Party charged with such waiver or estoppel. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

VIII. ASSIGNMENT.

This Agreement and the rights, duties, and obligations hereunder may not be assigned or delegated by any Party in whole or in part without the express prior written consent of the other Parties.

IX. ATTORNEYS' FEES AND COSTS.

In the event a Party to this Agreement brings an action to enforce any part of this Agreement, the prevailing party shall be entitled to recover its costs and reasonable attorneys' fees.

X. GOVERNING LAW.

This Agreement and its validity, interpretation, performance, and enforcement shall be governed by the laws of the State of Arizona without regard to the conflict of laws provisions thereof.

XI. CAPTIONS; TERMS.

The captions of this Agreement are for convenience only and shall not be construed to limit, define or modify the substantive terms hereof.

XII. NOTICES.

All notices under this Agreement shall be in writing and shall be given by personal service, or by certified or registered United States mail, return receipt requested, or by receipted confirmed facsimile, or by e-mail with electronic confirmation or by recognized overnight courier service, to the individuals at the addresses set forth below. Any notice shall be deemed given: (i) upon delivery if delivered in person, (ii) upon the date of receipt if sent by United States mail; (iii) upon receipt of confirmation if sent by facsimile; (iv) upon delivery if delivered by commercial courier service; or (v) upon receipt if delivered by e-mail with electronic confirmation. All notices related to this Agreement shall be given in writing to the Parties at their respective addresses listed on page 7 of 8.

To UNS Electric:
Regulatory Counsel
Mail Stop UE2003
One South Church Avenue
Tucson, Arizona 85701
Email: mgilkey@tep.com

To the City of Nogales:
ATTN: City Attorney
777 N. Grand Avenue
Nogales, Arizona 85621

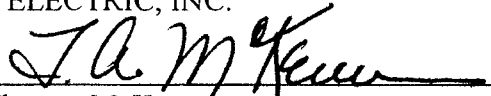
To the Nogales Unified School District:
ATTN: Superintendent
310 W. Plum Street
Nogales, Arizona 85621

To the Santa Cruz Valley Unified School District:
ATTN: Superintendent
1374 West Frontage Road
Rio Rico, Arizona 85648

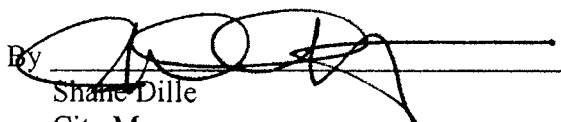
[signatures on following page]

IN WITNESS WHEREOF, the Parties have executed this Agreement and it shall
become effective on the Effective Date.

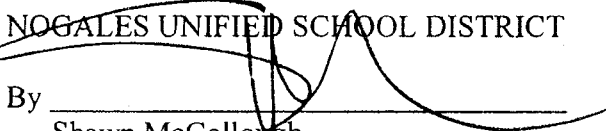
UNS ELECTRIC, INC.

By 
Thomas McKenna
Vice President

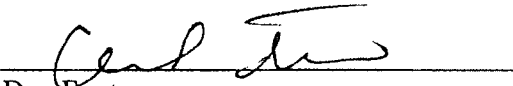
CITY OF NOGALES

By 
Shane Dille
City Manager

NOGALES UNIFIED SCHOOL DISTRICT

By 
Shawn McCollough
Superintendent

SANTA CRUZ VALLEY UNIFIED SCHOOL DISTRICT

By 
Dan Pontes
Superintendent